



May 29, 2001

Tax Relief – Conference Report Summary of Major Provisions

Year-By-Year Tax Relief:

Dollars in Billions

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011
40.9	70.7	90.6	101.1	114.0	135.2	151.7	160.1	167.8	187.0	129.5	1,348.5

Marginal Rate Relief:

- New 10% bracket retroactive to January 1 on first \$6,000 of income for individuals, \$10,000 for the heads of households, and \$12,000 for couples
- 39.6, 36, 31, and 28 percent brackets reduced by one point each, effective July 1 of this year, and then by another point in 2004 and by an additional point in 2006 (except for the 39.6% bracket, which in 2006 will drop to 35%)
- Beginning in 2006, the bill phases-out the limits on personal exemptions (PEP) and itemized deductions (Pease) (which effectively lowers the marginal tax rate for high-income taxpayers)

Present	2001-2003	2004-2005	2006-2010
N/A	10%	10%	10%
15%	15%	15%	15%
28%	27%	26%	25%
31%	30%	29%	28%
36%	35%	34%	33%
39.6%	38.6%	37.6%	35%

2001 Rate Reduction Refund:

- Since the new 10% tax bracket is retroactive to January 1, taxpayers will receive a rebate check for the difference in tax liability between the new 10% bracket and the current 15% bracket (5% of the maximum amount of income taxable under the new bracket).
- Single taxpayers will receive a maximum rebate of \$300
- Heads of Households will receive a maximum rebate of \$500

- Couples will receive a maximum rebate of \$600
- Most taxpayers will receive their check prior to October 1

Child Tax Credit Expansion:

- Phases in a doubling of the child credit from \$500 to \$1,000.

Calendar Year	Credit Amount Per Child
2001-2004	\$600
2005-2008	\$700
2009	\$800
2010	\$1,000

- Makes the Child Tax Credit refundable up to the greater of 15% (10% in 2001 through 2004) of earned income in excess of \$10,000 or current law (i.e. cash payments for those with tax liability less than the credit)

Marriage Penalty:

- Sets the standard deduction for couples at twice the level for individuals – phased in over 5 years beginning in 2005
- Sets the 15% bracket for couples at twice the level for individuals – phased in over 4 years beginning in 2005
- EITC changes to reduce marriage penalty – beginning in 2002
- Marriage penalty relief does not discriminate between one and two-earner couples

Estate and Gift Tax:

- Phases-out the estate tax beginning in 2002 by eliminating the 5% surtax and the rates in excess of 50% and increases the exemption to \$1 million
- Continues to phase out the estate tax as follows:

Calendar Year	Exemption	Highest Estate and Gift Tax Rate
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	N/A (estate tax repealed)	Top Individual Rate (for gift tax)

- Expands the availability of qualified conservation easements by eliminating the requirement that the land be located within a certain distance from a metropolitan area
- Beginning in 2010, the “stepped up” basis for valuation of inherited assets would be replaced with the “carryover basis,” thereby imposing a new capital gains tax on the difference between what the deceased paid for assets and current market value. An exemption of \$1.3 million in gained value (\$4.3 million for a surviving spouse) would be allowed.

Pension and IRA Provisions:

- Increases the maximum IRA contribution limits for traditional and Roth IRAs as follows:

Year	Contribution Limit
2002-2004	\$3,000
2005-2007	\$4,000
2008	\$5,000
2009 and thereafter	Indexed for Inflation

- Increases IRA catch-up contribution limits for those age 50 and over by \$500 in 2002 and \$1,000 in 2006
- Includes other pension provisions generally included in the Portman-Cardin Retirement Savings Bill

Education Proposals:

- Increases the annual limit on contributions to education IRAs from \$500 to \$2,000
- Expands the definition of qualified education expenses to include elementary and secondary school expenses
- Increases the phase-out range for couples to twice the level of single taxpayers
- Clarifies that corporations and other entities may make contributions to education IRAs
- Expands the definition of qualified prepaid tuition programs to include programs established by educational entities other than state-sponsored programs
- Expands the exclusion from income for employer-provided educational assistance to graduate education
- Increases the income phase-out range for the student loan interest deduction to \$50,000 to \$65,000 for singles and to \$100,000 to \$130,000 for couples and adjusts for inflation after 2002
- Allows taxpayers to claim the student loan interest deduction for voluntary payments of interest
- Eliminates any tax liability for scholarships under the National Health Service Corps Scholarship Program and the Armed Forces Health Professions Scholarship Program

- Permits taxpayers to claim an above-the-line deduction for qualified higher education expenses as follows:

Year	Income Limit	Maximum Deduction
2002-2003	\$65,000 for singles, \$130,000 for couples	\$3,000
2004-2005	\$65,000 for singles, \$130,000 for couples	\$4,000
2004-2005	\$80,000 for singles, \$160,000 for couples	\$2,000
2006	Provision Repealed	

School Construction:

- Increases from \$5 million to \$10 million the amount of bonds that local governmental units may issue for public schools without being subject to arbitrage rebate requirements
- Expands the private activities for which tax-exempt bonds may be issued to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local education agency

Adoption Tax Benefits:

- Increases the adoption tax credit to \$10,000 per eligible child (includes special needs children)
- Increases the exclusion from income for employer-provided adoption assistance to \$10,000
- Increases the starting-point for the phase-out of both provisions to \$150,000 of adjusted gross income

Dependent Care Tax Credit:

- Increases the maximum amount of employment-related expenses from \$2,400 to \$3,000 if there is one qualifying individual and from \$4,800 to \$6,000 if there are two or more qualifying individuals
- Increases the maximum credit from 30% to 35%

Tax Credit for Employer-Provided Child Care Facilities:

- Provides employers with a tax credit equal to 25% of qualified expenses for employee child care and 10% of qualified expenses for child care resource and referral services; however, the total maximum credit may not exceed \$150,000 per taxable year

Treatment of Restitution Payments to Holocaust Survivors:

- Excludes any payments to eligible individuals or the individual's heirs or estate from gross income for tax purposes

Alternative Minimum Tax:

- Increases the individual alternative minimum tax (AMT) exemption amount by \$2,000 for single taxpayers and \$4,000 for couples for 2001 through 2004, thus reducing the number of taxpayers subject to the AMT
- In 2005 the increased AMT exemptions expire
- The expiration of the increased AMT exemption and the lower marginal tax rates will subject more taxpayers to the AMT beginning in 2005 (roughly twice as many taxpayers will be subject to the AMT beginning in 2005 as a result of this bill)

General Provisions:

- In order to comply with the Budget Act, all provisions of the bill generally expire as of December 31, 2010. Tax provisions would at that time revert to current law
- In order to shift the surplus from one year to another the bill modifies the date on which corporate estimated tax payments are due, effectively shifting \$33 billion in revenue from 2001 to 2002 and \$6.6 billion in revenue from 2004 to 2005 (this is accounted for the revenue tables at the beginning of this document)

###